



ECONOMICS

ATAR course examination 2018

Marking Key

Marking keys are an explicit statement about what the examining panel expect of candidates when they respond to particular examination items. They help ensure a consistent interpretation of the criteria that guide the awarding of marks.

Section One: Multiple-choice

24% (24 Marks)

Question	Answer
1	c
2	c
3	b
4	b
5	d
6	a
7	c
8	a
9	d
10	d
11	d
12	b
13	a
14	d
15	a
16	c
17	b
18	d
19	a
20	c
21	b
22	a
23	c
24	a

Section Two: Data interpretation/Short answer

36% (36 Marks)

Question 25

(12 marks)

- (a) (i) Identify the difference in value between Australian imports from the United States (US) and Australian exports to the US. (1 mark)

Description	Marks
US \$28 Billion	1
Total	1

- (ii) Describe how an 'import quota' operates as a form of trade protection. (1 mark)

Description	Marks
a quantity restriction on imports	1
Total	1

- (iii) State the aim of a 'bilateral trade agreement'. (1 mark)

Description	Marks
reduce trade barriers between two nations/free trade	1
Total	1

- (b) Use the demand and supply model, and evidence from the article, to explain and demonstrate how Australian consumers benefit from trade liberalisation. (4 marks)

Description	Marks
Explanation	
Australian consumers benefit from 'greater choice' and quantity as well as 'lower prices'. (Answer uses the evidence from the article) Refers to change in Q and P in model.	2
Identifies a benefit from lower prices and higher quantity consumed.	1
Subtotal	2
Model	
Provides a fully labelled model identifying the domestic price as above the world price and a resulting decrease in price paid and increase in quantity consumed when the market opens to imports. (Candidates may choose Free Trade or Tariff Reduction model.)	2
Provides a model that demonstrates a benefit to the consumer, with some attempt at labelling.	1
Subtotal	2
Total	4

Question 25 (continued)

- (c) Explain how the operation of a subsidy reduces market efficiency. Draw an appropriate model to support your answer. (5 marks)

Description	Marks
Explanation	
Explains the decline of market efficiency by referring to declining total surplus as a result of the deadweight loss and includes a clear reference to the model.	3
Describes the effect on price and quantity and identifies the cost of the subsidy as being greater than the gain to producers.	2
Identifies the cost of the subsidy causing a reduction in market efficiency.	1
Subtotal	3
Model	
Shows clearly the reduction in total surplus (deadweight loss) as a consequence of the subsidy. Labels the model correctly.	2
Demonstrates a shift in the supply curve and the change in price (none) and the change in local production (increase).	1
Subtotal	2
Total	5

Question 26**(12 marks)**

- (a) (i) Calculate Australia's net foreign liability for the September Quarter 2017. (1 mark)

Description	Marks
958 849	1
Total	1

- (ii) Identify the category in the table that explains the change in the current account balance. (1 mark)

Description	Marks
balance on goods and services	1
Total	1

- (b) With reference to the table, identify and explain the structural reason for Australia's current account deficit. (3 marks)

Description	Marks
Identification	
primary income	1
Subtotal	1
Explanation	
Australia has a savings investment gap so the nation relies on foreign investment. The cost of the FI in the form of profits, interest and dividends is recorded in the primary income account of the current account and means it is always in deficit.	2
Describes the transactions that occur in the primary account always producing a CAD.	1
Subtotal	2
Total	3

- (c) Distinguish between foreign debt and foreign equity and, with reference to the table, suggest **one** possible reason for the difference in their **net** totals. (3 marks)

Description	Marks
foreign debt – the amount of money that Australian residents owe to the rest of the world.	1
foreign equity – the amount of Australian assets owned by foreign residents.	1
Refer to either: net foreign debt is largest because it is more flexible/preferred/global interest rates are low. net foreign equity is small and negative because Australian residents own more assets overseas than foreigners own in Australia.	1
Total	3

- (d) Evaluate the claim that the level of foreign debt in Australia is too high. (4 marks)

Description	Marks
Evaluates the claim using any of the following arguments.	1–4
Total	4
<p>Answer(s) could include:</p> <ul style="list-style-type: none"> • Foreign debt is being used to boost Australia's future productive capacity and economic growth. • The servicing costs of the debt has been declining over time. • Australia's assets are growing faster than liabilities (in the form of debt) so national wealth is increasing over time. • Servicing costs may become burdensome if borrowing for non-productive investment rises (continued budget deficits). • If world growth rates, the value of the AUD, and the terms of trade all fall then servicing costs of foreign debt will rise. 	

Question 27

(12 marks)

- (a) (i) Identify the five-year time period in which Australia experienced the fastest annual change in labour productivity. (1 mark)

Description	Marks
1993–94 to 1998–99	1
Total	1

- (ii) What was the contribution of capital deepening to the total productivity rate in the last time period on the graph (2007–08 to 2015–16)? (1 mark)

Description	Marks
2.0%/2 (1.9%–2.1% acceptable)	1
Total	1

- (iii) Apart from productivity, what is the other main influence on income per capita according to the extract? (1 mark)

Description	Marks
the terms of trade	1
Total	1

- (b) Distinguish between 'labour productivity' and 'multifactor productivity'. (2 marks)

Description	Marks
labour productivity – total output divided by total labour hours worked.	1
multifactor productivity – increased output from factors not directly associated with an increase in the quantity of labour or capital.	1
Total	2

- (c) Outline **two** government policies that may have contributed to the improvement in labour productivity from 2007–08 to 2015–16. (2 marks)

Description	Marks
Outlines two government policies.	2
Outlines one government policy.	1
Total	2
Answer(s) could include: <ul style="list-style-type: none"> • improvement in infrastructure • more students completing secondary education and university • tax incentives for purchasing capital equipment • influence of NBN roll-out • more competitive markets driving innovation and efficiency • other: any other common-sense policy likely to have improved labour productivity. 	

- (d) Using the aggregate demand and aggregate supply (AD/AS) model, demonstrate and explain how an improvement in productivity can assist the government in achieving economic growth, low inflation and full employment. (5 marks)

Description	Marks
Explanation	
Explains the link between increased productivity (more output is being produced from the same inputs) and an increase in the economy's potential level of real GDP. As a result, sustainable economic growth can occur without inflationary pressure, and this in turn will reduce unemployment. Reference to model in explanation relating shifts in AD and AS to macroeconomic goals.	3
Describes how the economy can grow without inflationary pressure and this will reduce unemployment. Refers to the model.	2
Identifies the positive impact of improvements in productivity on the government's achievement of its macroeconomic goals.	1
Subtotal	3
Model	
Fully labelled AD/AS model (curved classical model or LRAS/SRAS). Price level on vertical axis and real GDP on horizontal axis. Rightward shift in AS curve showing an increase in real GDP and reduction in price level. Identification of new equilibrium.	2
Rightward shift in AS curve showing an increase in real GDP and reduction in price level. Identification of new equilibrium.	1
Subtotal	2
Total	5

Question 28

(20 marks)

(a) Evaluate the economic validity of the President's arguments for trade protection.

(12 marks)

Description	Marks
For each of the four arguments:	
Evaluation with reasoning behind argument and economic reasoning that refutes the argument.	3
An understanding of reasoning behind the argument for protection.	2
Limited understanding behind the argument.	1
Total	12
<p>Answer(s) could include:</p> <p>National security</p> <ul style="list-style-type: none"> • need to protect those industries that are vital to defence • problem is identifying which industries are 'vital' • trade fosters international cooperation whilst protection reduces it. <p>Anti-dumping</p> <ul style="list-style-type: none"> • selling a product at a lower price in the United States market than in home market • difficult to determine whether a firm/country is dumping or it is just more efficient • avenues through the World Trade Organisation to make anti-dumping case already available. <p>Increased employment</p> <ul style="list-style-type: none"> • argument is that imports employ foreign workers whereas domestic goods imply local employment • employment in the protected industry may rise • employment in other non-protected industries will fall as they face higher input costs so overall employment will decline. <p>Favourable balance of trade</p> <ul style="list-style-type: none"> • belief that imports are bad and exports are good and similarly the goal is for a trade surplus rather than a trade deficit • in reality protection may reduce imports but exports will fall as well because protection reduces the competitiveness of local firms • reality is imports benefit consumers and exports benefit producers. 	

- (b) Unlike the US, Australia regularly records a trade surplus. Explain the reasons for this trade surplus, with reference to the direction and composition of Australia's trade.

(8 marks)

Description	Marks
Explanation of reasons	
Explanation must refer to at least two factors. For each factor:	
Detailed explanation of a reason and links to both exports and imports in both goods and services, and direction of trade.	4
Explains a reason and links to both direction and composition.	3
Describes a reason and links to direction or composition.	2
Identifies a reason.	1
Subtotal	4
Total	8
<p>Answer(s) could include:</p> <p>Patterns</p> <ul style="list-style-type: none"> • exports – iron ore, coal, liquefied natural gas, education services, personal travel, rural commodities and processed foods • imports – manufactured products such as computer and electronics, and capital machinery, passenger motor vehicles • major export partners: China, Japan, South Korea, US • major import partners: China, US, Japan, Singapore. <p>Factors</p> <ul style="list-style-type: none"> • explanation of meaning of trade surplus • rapid East Asian industrialisation and stronger terms of trade • investment in mining capacity has increased export volumes • approximately 30% of all export value earned from China • natural trade complementarity • influence of FTAs. 	

Question 29

(20 marks)

- (a) Explain and demonstrate, using the demand and supply model, **two** factors that have caused fluctuations in the value of the Australian dollar over the last decade. (10 marks)

Description	Marks
Explanation	
Provision of data/demonstration of understanding of recent trends in the AUD.	1
Subtotal	1
Factor one – detailed explanation of factor influences on the currency. Requires an understanding that the factor has led to either an appreciation or a depreciation. Reference to model in explanation showing increase/decrease in demand/supply for AUD resulting in an appreciation.	3
Factor one – explanation of factor influences on the currency. Link made to model.	2
Factor one – simple description of link between factor and currency.	1
Subtotal	3
Factor two – detailed explanation of factor influences on the currency. Requires an understanding that the factor has led to either an appreciation or a depreciation. Reference to model in explanation showing increase/decrease in demand/supply for AUD resulting in an appreciation.	3
Factor two – explanation of factor influences on the currency. Link made to model.	2
Factor two – simple description of link between factor and currency.	1
Subtotal	3
Model	
A correctly labelled demand and supply model showing the correct shift in demand and/or supply.	3
A correctly labelled demand and supply model.	2
Some attempt to use a demand/supply model.	1
Subtotal	3
Total	10
<p>Answer(s) could include:</p> <ul style="list-style-type: none"> Factor one: commodity prices, demand from East Asia particularly China for coal and iron ore led to strong demand for AUD appreciating the currency's value beyond parity with USD (2011). Slowdown in mining boom after 2012 led to a gradual depreciation to current value. Link to model showing increase in demand for dollar resulting in an appreciation. Factor two: interest rate differential, higher interest rates in Australia attracting foreign investment particularly after GFC when overseas rates were much lower. Mining boom also led to increased capital requirement led to appreciation. Slowdown in construction phase of mining boom and gradual decline in interest rate differential reduced demand (and potentially increased supply for overseas investment) for AUD led to depreciation. <p>Candidates may also refer to factors such as terms of trade, domestic economic growth or world economic growth. These all relate to the two key influences above, so reward as appropriate.</p>	

- (b) Analyse the likely effects of a large depreciation of the value of the Australian dollar on consumers, producers and the macroeconomy. (10 marks)

Description	Marks
Analysis of effects	
Comprehensive analysis of both positive and negative effects on producers.	4
Detailed analysis of effect on producers.	3
Some analysis of effect on producers.	2
Limited analysis of effects on producers.	1
Subtotal	4
Detailed analysis of effect on consumers.	2
Some analysis of effect on consumers.	1
Subtotal	2
Comprehensive analysis of both positive and negative macroeconomic effects.	4
Detailed analysis of macroeconomic effects.	3
Some analysis of macroeconomic effects.	2
Limited analysis of macroeconomic effects.	1
Subtotal	4
Total	10
<p>Answer(s) could include:</p> <ul style="list-style-type: none"> • competitive advantage – price of exports in foreign currency falls • resources shift to traded goods sector – exporting and import competing firms • producers also pay more for imported capital items or raw materials • price of imports in AUD rises • consumers pay higher price for imported consumer goods (e.g. motor vehicles) as well as services (e.g. overseas travel) • decreased living standards • depreciation may cause inflationary pressure as higher priced imports feed into the CPI • trade balance should improve along with CAD • an increase in net exports will boost national income and spending in the economy • may cause an increase in foreign debt if denominated in other currency • depreciating currency may assist an economy recover from an economic slowdown or negative external shock. 	

Question 30

(20 marks)

- (a) Explain and demonstrate, using an aggregate expenditure (AE) model, how an economy would move towards macroeconomic equilibrium if output was greater than spending. (8 marks)

Description	Marks
Explanation	
Detailed explanation of position of disequilibrium and resulting changes in the economy producing a new lower equilibrium level of income.	4–5
Explanation showing an understanding of disequilibrium and resulting economic changes that produce a lower equilibrium level of income.	2–3
Limited explanation of changes in level of income.	1
Subtotal	5
Model	
Fully labelled model identifying area where output is greater than spending (disequilibrium) and the equilibrium level where output is equal to spending where the AE function crosses the 45-degree line. Decrease in equilibrium level of income.	3
Model showing AE function and 45-degree line and identification of equilibrium and disequilibrium.	2
Some attempt to complete an AE model.	1
Subtotal	3
Total	8
<p>Answer(s) could include:</p> <ul style="list-style-type: none"> • explanation of disequilibrium where output is greater than spending • inventories will increase • firms will reduce demand for resources (including labour) as they decrease aggregate output • output will fall along with AE (although at a reduced pace due to slope of AE line) • a new equilibrium at a lower level of income/real GDP is established. 	

- (b) Describe the main characteristics of the trough phase of the business cycle and explain why this phase is unlikely to last indefinitely. (12 marks)

Description	Marks
Characteristics	
Detailed description of the characteristics of the trough phase.	5–6
A range of characteristics described.	3–4
Limited description of characteristics.	1–2
Subtotal	6
Reasons for turning point	
Detailed explanation of reasons for turning point.	5–6
Explanation of some of the reasons for turning point.	3–4
Limited explanation of reasons.	1–2
Subtotal	6
Total	12
<p>Answer(s) could include:</p> <p>Trough phase</p> <ul style="list-style-type: none"> • level of AE is below the economy's potential • lower levels of consumer and business confidence in the economy • low levels of consumption expenditure on durable goods and luxuries • lower levels of profits • spare productive capacity • high cyclical unemployment (may be less structural and frictional) • labour participation rate falls • reduced pressure on prices • low levels of borrowing • low interest rates because of reduced demand for borrowed money and RBA action (looser monetary policy). <p>Turning point</p> <ul style="list-style-type: none"> • productive machinery will eventually wear out and require replacement and this results in new investment • businesses will seek to innovate with new products and more efficient processes and seek to gain a competitive advantage • the lower interest rates that have fallen may also induce some further investment borrowing with the expectation that conditions will eventually improve • consumers may begin increasing spending on durables as the cost of credit falls • influence of automatic stabiliser • influence of discretionary government policy • the increase in consumption and investment will begin having positive effects on aggregate expenditure and the economy enters an upswing. 	

Question 31

(20 marks)

The Australian Government's planned budget outcome for 2017–18 was a deficit of –1.6% of GDP. The mid-year budget update revised the budget outcome to –1.3% of GDP. The underlying cash balance had improved by \$9.3 billion.

Account for the difference in the budget outcomes and explain the likely government fiscal policy stance if the economy reached a level beyond that required for full employment. Use an aggregate demand and aggregate supply (AD/AS) model to support your answer.

Description	Marks
Difference in budget outcomes	
Detailed explanation of change in economic activity, reasons for this result, and how the key expenditure and revenue components of the budget have changed (at least four key points).	4
Explanation of change in economic activity and related expenditure and revenue components (at least three key points).	3
Description of change in economic activity and how it has affected the budget.	2
Limited link between economic activity and budget.	1
Subtotal	4
Fiscal policy stance	
Detailed explanation: Boom conditions and contractionary fiscal policy stance. Budget surplus. Clear reference to model in relation to both price and real GDP. Explanation of discretionary fiscal policy options and specific examples.	10–12
Explanation: link between boom and contractionary fiscal policy. Reference to the model. Discussion of policy options and examples.	7–9
Description of need for contractionary fiscal policy and actions that a government can implement.	4–6
Identification of fiscal policy approach. Limited description of likely government actions.	1–3
Subtotal	12
Model	
Fully labelled AD/AS model with initial equilibrium level above potential GDP and resulting decrease in AD from fiscal policy stance. Reduction in price level clearly shown.	4
Labelled model with most features shown correctly.	3
Model showing shift in AD.	2
Some attempt to use AD/AS model.	1
Subtotal	4
Total	
Answer(s) could include:	
Difference in budget outcome	
<ul style="list-style-type: none"> the upswing has been stronger than expected in the original budget the government is collecting more income tax and company tax the government is spending less money than expected on social security and welfare the measures designed to improve the efficiency of the welfare system have saved a considerable amount of money the terms of trade have been unexpectedly higher and net exports have been having a larger than expected positive effect on aggregate expenditure. 	
Fiscal policy stance	
<ul style="list-style-type: none"> Reference to boom conditions and aim of contractionary fiscal policy to reduce aggregate demand and return economy to potential GDP 	

- Clear link between high level of output in a boom and inflationary pressure
- Reference to diagram
- Fiscal policy – reduce government spending and/or increase taxation
- Government would run a budget surplus.
- Reference to discretionary fiscal policy options – increased income tax rates and company tax rates, reducing government infrastructure spending, increasing excise taxes
- Reference to difficulties of cutting spending too quickly because of on-going funding requirements or political consequences of raising taxes too much.

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